

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements
June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

York County, which was originally named Charles River County, was one of Virginia's eight original "shires" formed in 1634. It was renamed nine years later in 1643 when the river that determines the County's character was also given the name of the then Duke of York. York County has played a major role in the development of this nation. Most importantly, it was the location of the culminating battle of the Revolutionary War and the subsequent surrender of Lord Cornwallis and his British army on October 19, 1781.

The County of York, Virginia (the County) is organized under the County Executive form of government (as defined under Virginia Law). The governing body of the County is the Board of Supervisors that establishes policies for the administration of the County. The Board of Supervisors comprises five members: one member from each of five districts, elected for a four-year term by the voters of the district in which the member resides. The Board of Supervisors appoints a County Executive (County Administrator) to act as the administrative head of the County.

The financial statements of the County have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted primary standard-setting body for establishing governmental accounting and financial reporting principles. The County's significant accounting and reporting policies are described below.

In fiscal year 2005, the County adopted the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures* – an amendment of GASB Statement No. 3. This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk.

A. The Reporting Entity

The County's financial reporting entity is defined and its financial statements are presented in accordance with GASB Statement No.14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This Statement defines the distinction between the County as a primary government and its related entities. The financial reporting entity consists of the primary government and its discretely presented component units, which are legally, separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit or impose a financial burden on the primary government. The primary government may also be financially accountable if the component unit is fiscally dependent on the primary government regardless of whether the component unit has a separately elected governing board. As such, the York County School Division (the School Division) and the Economic Development Authority of York County (EDA) are reported as separate and discretely presented component units in the County's reporting entity. The primary government is hereafter referred to as the "County" and the reporting entity, which includes the County and its component units, is hereafter referred to as the "Reporting Entity." As required by GAAP, the accompanying basic financial statements include all activities of the County.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2005

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**, Continued

The component unit columns in the basic financial statements include the financial data of the County's two discretely presented component units. The discretely presented component units are reported in separate columns in the government-wide financial statements to emphasize that they are legally separate from the primary government. These component units are fiscally dependent on the County and provide services primarily to the citizens of the County. All of the component units have a June 30 year-end. A description of the discretely presented component units follows:

The **York County School Division (the School Division)** is responsible for elementary and secondary education within the County. Since January 1, 1996, the citizens of the County have elected the members of the School Division. The School Division is fiscally dependent upon the County because the Board of Supervisors approves the School Division's annual budget, levies the necessary taxes to finance the School Division's operations and approves the borrowing of money and the issuance of bonds. Separate audited financial statements are available from the School Division at 302 Dare Road, Yorktown, Virginia, 23692.

The **Economic Development Authority of York County (EDA)** was originally established under the Industrial Development and Revenue Bond Act - *Code of Virginia*. The 2004 General Assembly amended the Code of Virginia Section 15.2-4903 to allow localities to change the name of their Industrial Development Authorities if so authorized by the local governing body. The EDA took such action during the fiscal year. A separate board appointed by the Board of Supervisors governs the EDA. The EDA is fiscally dependent upon the County because substantially all of its income is derived from an appropriation from the County. The EDA has the responsibility to promote industry and develop trade by inducing manufacturing, industrial and commercial enterprises to locate or to remain in the County. Separate audited financial statements are available from the EDA at P.O. Box 612, Yorktown, Virginia, 23690.

B. **Joint Venture Government Organizations**

The County does not include in the basic financial statements certain authorities created as separate governments under the laws of the Commonwealth of Virginia. These authorities are separate legal entities having governmental character and sufficient autonomy in the management of their own affairs to distinguish them as separate from the administrative organization of the County although the County Board of Supervisors appoints certain members of their governing bodies. While the County may have some reversionary interest in the assets of these entities in the event they are dissolved, the nature and extent of that interest would be subject to negotiation at the time of dissolution. The County does not include these entities as component units because they do not meet the criteria as set forth in GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

The **Virginia Peninsulas Public Service Authority (VPPSA)** was established under the Virginia Water and Sewer Authorities Act - *Code of Virginia*. A separate ten-member board of which the County appoints one representative governs VPPSA.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

VPPSA was formed for the purpose of developing regional refuse collection, waste reduction and disposal alternatives with the ultimate goal of acquiring, financing, constructing and/or operating and maintaining a residential, commercial and industrial garbage and refuse collection and disposal system or systems. VPPSA is fiscally independent of the County because substantially all of its income is generated through the collection of user fees. Separate audited financial statements are available from VPPSA at 300 McLaws Circle, Suite 200, Williamsburg, Virginia 23185.

The **Virginia Peninsula Regional Jail Authority (Jail Authority)** was created pursuant to Article 3.1, Chapter 3, Title 53.1 of the *Code of Virginia* to finance, acquire, construct, equip, maintain and operate a regional jail. A separate seven-member board of which the County Sheriff serves as a member and the County appoints one representative governs the Jail Authority. The Jail Authority is fiscally independent of the County because substantially all of its income will be generated from per diem payments from the member jurisdictions and reimbursements from the Commonwealth of Virginia for a portion of the capital costs, a portion of salaries and benefits of certain regional jail employees and a per diem charge for all prisoners housed at the jail. Separate audited financial statements are available from the Jail Authority, c/o the County of James City at P. O. Box 8784, Williamsburg, Virginia 23187-8784.

The **Middle Peninsula Juvenile Detention Commission (the Commission)** was created to enhance the region for the protection of the citizens by the construction, equipping, maintenance and operation of a new juvenile detention facility serving the eighteen member jurisdictions of which the Director of Community Services serves as the County's representative on the board. The Commission is fiscally independent of the County because substantially all of its income will be generated from per diem payments from the member jurisdictions and reimbursements from the Commonwealth of Virginia for a portion of the capital costs. Separate audited financial statements are available from the Commission, c/o the County of James City at P. O. Box 8784, Williamsburg, Virginia 23187-8784.

C. Government-wide and Fund Financial Statements

The basic financial statements are composed of both government-wide and fund financial statements. The government-wide statements, the statement of net assets and the statement of activities, report information on all of the nonfiduciary activities of the County and its component units. Generally, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely primarily on fees and charges for services. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities presents a comparison between direct expenses of a function and program revenues. Direct expenses are those that are specifically associated with a specific function or segment. Program revenues include a) fees, fines and charges paid by the recipients of goods or services offered by the function or segment and b) grants and contributions that are restricted to meet the operations or capital requirements of a particular function or segment.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
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1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**, Continued

Revenues that are not classified as program revenues, including all taxes, are presented as general revenues. Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

D. Measurement Focus, Basis of Accounting, Financial Statement Presentation

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenue from the use of money and property and from intergovernmental reimbursement grants is recorded as earned. Other revenues are considered available to be used to pay liabilities of the current period if they are collectible within the current period or within 45 days thereafter. The primary revenues susceptible to accrual include property taxes, sales taxes and other local taxes and intergovernmental revenues. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the individual programs are used as guidance. Expenditures are generally recorded when the related fund liability is incurred. Debt service expenditures, as well as compensated absences and claims and judgments, are recorded when payment is due.

The County reports the following major governmental funds:

General Fund: The General Fund is the County's primary operating fund. It is used to account for all revenue sources and expenditures not required to be accounted for in other funds.

Yorktown Capital Improvements Fund: The Yorktown Capital Improvements Fund is used to account for financial resources to be used for the acquisition or construction in the historical Yorktown area.

Capital Projects - County Capital Fund: The County Capital Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by proprietary funds).

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

The County reports the following nonmajor governmental funds:

Special Revenue Funds: The Children's Services/Head Start, Virginia Public Assistance and Law Library Funds are used to account for the proceeds of federal, state and local sources that are legally restricted to expenditures for specified purposes.

Debt Service Funds: The Fire and Rescue, Public Facilities and Education Debt Redemption Funds are used to account for the receipt and payment of bonds and loans issued for the acquisition, construction and maintenance of fire and rescue equipment, County facilities and educational facilities.

The County reports the following major enterprise funds:

Sewer Utility Fund: This fund accounts for the operations of the County's sewer utility systems.

Yorktown Revitalization Fund: This fund accounts for the revitalization project in Yorktown.

The County reports the following nonmajor enterprise funds:

York Sanitary District Fund: This fund accounts for the capital assets as of January 1, 1992 of the Sanitary District No. 1 utility systems.

Water Enterprise Fund: This fund accounts for the capital assets as of January 1, 1992 of the upper County utility systems.

Solid Waste Fund: This fund accounts for the operations of the County's solid waste disposal system.

Water Utility Fund: This fund accounts for operations of the County's water utility systems.

Sanitary District No. 2 Fund: This fund accounts for the capital assets as of January 1, 1992 of the Sanitary District No. 2 utility systems.

The County reports the following additional fund types:

Internal Service Fund: The Vehicle Maintenance Fund accounts for the operation of the vehicle maintenance and replacement services that are provided to County departments on a cost reimbursement basis.

Agency Funds: These funds are custodial in nature (assets and liabilities) and do not involve measurement of results of operations.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
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1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**, Continued

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20 "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting" (Statement No. 20), proprietary fund types follow all applicable GASB pronouncements as well as all Financial Accounting Standards Board (FASB) pronouncements and predecessor Accounting Practices Board (APB) Opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, provided those standards do not conflict with GASB. Under paragraph 7 of Statement No. 20, the County has elected not to apply FASB pronouncements issued after November 30, 1989.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's Sewer Utility and various other functions of the government; elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted on an as needed basis.

E. Property Taxes

The two major sources of property taxes are described below:

Real Estate

The County levies real estate taxes on all real estate within its boundaries, except that exempted by statute, each year as of January 1 on the estimated market value of the property. All real estate property is assessed biennially.

Real estate taxes are billed in semi-annual installments due June 5 and December 5. Liens are placed on the property on the date real estate taxes are delinquent, June 6 and December 6, and must be satisfied prior to the sale or transfer of the property. Real estate taxes reported as revenue are for the assessment due December 5, 2004 and June 5, 2005, less an allowance for uncollectible amounts and taxes not collected within 45 days after year-end. The tax rate for calendar years 2004 and 2005 was \$.8175 per \$100 of assessed value.

Personal Property

The County levies personal property taxes on motor vehicles and tangible personal business property. These levies are made each year as of January 1. Personal property taxes are billed in equal semi-annual installments due June 5 and December 5. Personal property taxes do not create a lien on property. The personal property taxes reported as revenue are for the levies due December 5, 2004, and June 5, 2005, less an allowance for uncollectible amounts and taxes not collected within 45 days after year-end.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2005

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**, Continued

The tax rate for calendar years 2004 and 2005 was \$4.00 per \$100 of assessed value. The County's property tax collection records show that 96.13% of the property taxes due for the current tax year were collected.

F. Allowance for Uncollectible Amounts

Provision for uncollectible property taxes is based upon a historical percentage of accounts written off applied to the total levies of all years carried in taxes receivable and, in certain cases, specific account analysis. Provision for uncollectible solid waste, water and sewer service bills is based upon a historical analysis of uncollected accounts and, in certain cases, specific account analysis.

G. Cash and Temporary Investments

The County utilizes the pooled cash investment method. Income from the investment of pooled cash is allocated to the various funds based on the percentage of cash and temporary investments of each fund to the total pooled cash and temporary investments. See Note 3 for description of cash and temporary investment policies. Investments are stated at fair value.

H. Inventories

Inventories consist of materials and supplies held for future consumption and are stated using the first-in, first-out method. Inventory is accounted for under the purchase method.

I. Prepays

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

J. Advances

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account to applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

K. Capital Assets

Capital assets include land, land improvements, buildings and improvements, infrastructure, equipment, and vehicles. Infrastructure that meets the County's capitalization threshold, acquired prior to the implementation of GASB Statement No. 34 has been reported. Land, land improvements, infrastructure, and equipment that individually costs \$5,000 or more, vehicles that individually costs \$10,000 or more, and buildings and improvements that individually costs \$30,000 or more and with useful lives greater than two years are reported in the applicable governmental or business-type activities column in the government-wide financial statements.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2005

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**, Continued

Such assets are recorded at historical cost or estimated historical cost if constructed or purchased. Donated capital assets are recorded at fair market value at the date of donation. Capital assets are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Land improvements	15 - 20
Buildings and improvements	10 - 50
Infrastructure	10 - 50
Equipment	3 - 20
Vehicles	3 - 20

L. Compensated Absences

County employees are granted vacation and sick pay in varying amounts as services are provided. They may accumulate, subject to certain limitations, unused vacation and sick pay earned and, upon retirement, termination or death, may be compensated for certain amounts at their then current rates of pay. In the governmental fund types, the cost of vacation and sick pay is recognized when payments are made to employees. The current and noncurrent liability for accrued vacation and sick leave benefits at June 30, 2005 has been reported in the government-wide statements, representing the County's commitment to fund such costs from future operations. In the proprietary funds, the amount of compensated absences recognized is the amount earned. Such benefits are included in the government-wide statements. The amount due within one year has been estimated based on historic trends.

M. Net Assets/Fund Equity

Net assets in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt, restricted and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, laws and regulations of other governments or imposed by law through state statute.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance report tentative management plans that are subject to change.

N. Retirement Plan

Retirement Plan contributions are actuarially determined and consist of current service costs and amortization of prior service costs over a 30-year period. The County's policy is to fund pension costs as they accrue.

O. Statement of Cash Flows

For purposes of the statement of cash flows, cash and temporary investments with original maturities of three months or less are considered to be cash and cash equivalents.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

P. Use of Estimates

Management of the County has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Any differences between these estimates and actual results should immaterially affect the County's reporting of its financial position.

Q. Credit Risk

The assessed value of real estate and personal property for the County's ten largest taxpayers comprises 13.04% of the County's tax base. Concentration of credit risk with respect to receivables is limited due to the large number of customers comprising the County's customer base.

2. DEFICIT NET ASSETS

At June 30, 2005, there was a non-major enterprise fund with a deficit net asset position. Management intends to transfer funds from the General Fund in fiscal year 2006 to cover the Solid Waste Fund deficit of \$76,453. All other fund deficits are displayed in the basic financial statements.

3. DEPOSITS AND INVESTMENTS

The County maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the basic financial statements as "Cash and Temporary Investments." In addition, the County has restricted cash and investments including cash and investments held with escrow agents.

A. Deposits

All cash is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance. At June 30, 2005 cash and investments consisted of:

Bank deposits	\$ 2,072,555
Restricted cash	1,960,228
Investments	72,313,735
Petty cash	<u>4,325</u>
Total cash and investments	<u>\$ 76,350,843</u>

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2005

3. DEPOSITS AND INVESTMENTS, Continued

The carrying amount of the County's restricted cash was \$1,835,064 at June 30, 2005. This amount reflects \$6,000 of surety deposits for junkyards held in the County's and the junkyards' names; \$377,066 of donations and grants received for specific purposes; \$212,717 for monies held in escrow for debt payments on a capital lease with the Virginia Peninsulas Public Service Authority; \$86,544 for debt payments for the sewer revenue bonds; \$110,904 for monies held in escrow for retainage; \$8,860 held for tenant security deposits and \$1,032,973 for debt proceeds held in escrow for capital projects.

The carrying amount of the EDA's restricted cash was \$125,164 as of June 30, 2005, which represents monies held for the Virginia Department of Transportation for wetlands mitigation.

B. Investments

Statutes authorize the County to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP). LGIP is managed in accordance with the "2a7 like pool" risk limiting requirements of GASB Statement No. 31 "Accounting and Financial Reporting for Certain Investments and for External Investment Pools" with the portfolio securities valued by the amortized cost method. Investments with a maturity date of one year or less are stated at amortized cost. The fair value of the County's position in the LGIP is the same as the value of the pool shares. All other investments are stated at fair value.

Investment Policy

In accordance with the Code of Virginia and other applicable law, including regulations, the County's investment policy (the Policy) permits investments in U.S. Government obligations, certain municipal bonds, prime quality commercial paper, high grade corporate notes and bonds, bankers acceptances, repurchase agreements, certificates of deposit and other evidences of deposit at financial institutions, money market mutual funds, and the State Treasurer's Local Government Investment Pool (the Virginia LGIP, a 2a7 like pool).

State statute limits the percentage of the portfolio that can be invested in commercial paper to 35%. The Policy does not impose additional diversification limits, but does require that the portfolio avoid over-concentration in specific security types, issuers and business sectors.

Credit Risk

As required by state statute, the policy requires that commercial paper be rated "prime quality" by at least two nationally recognized statistical rating organizations and corporate notes and bonds must be rated in the AAA or AA categories by both Standard & Poor's and Moody's Investor Service. The County's Policy further limits credit risk by limiting investments in securities that have higher credit risks.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2005

3. DEPOSITS AND INVESTMENTS, Continued

As of June 30, 2005, the County's investments as rated by Standard & Poor's were as follows:

<u>Investment Type</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>A-1</u>
Virginia LGIP	21,944,865	-	-	-
Money market	867,413	-	-	-
Certificates of deposit	-	-	-	814,431
Commercial paper	-	-	-	11,938,776
Federal agency discount notes	5,490,619	-	-	-
Federal agency bonds and notes	15,885,943	-	-	-
Corporate obligations	3,853,317	3,621,375	-	-
Municipal obligations	5,450,456	1,941,722	504,818	-
Total investments	<u>\$ 53,492,613</u>	<u>\$ 5,563,097</u>	<u>\$ 504,818</u>	<u>\$ 12,753,207</u>

Concentration of Credit Risk

State statute limits the percentage of the portfolio that can be invested in commercial paper of a single issuer to no more than 5%. The County's policy does not set additional credit concentration limits. As of June 30, 2005, the portion of the County's portfolio, excluding the Virginia LGIP and U.S. Government guaranteed obligations, that exceeded 5% of the total portfolio were the Federal Home Loan Bank discount note and Federal Home Loan Bank bonds, which represented 7.59% and 5.78%, respectively, of the total investment portfolio.

Interest Rate Risk

As a means of limiting exposure to fair value losses arising from rising interest rates, the County's Policy limits the investment portfolio holdings to no more than 18 months, unless approved by the Treasurer. As of June 30, 2005, the carrying values and weighted average maturity of the County's investments were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity in Years</u>
Money market-Virginia LGIP	\$ 21,944,865	-
Money market	867,413	-
Certificates of deposit	814,431	1.00
Commercial paper	11,938,776	0.03
Federal agency discount notes	5,490,619	1.00
Federal agency bonds and notes	15,885,943	3.10
Corporate obligations	7,474,692	5.30
Municipal obligations	7,896,996	2.32
Total investments	<u>\$ 72,313,735</u>	
Weighted average of portfolio		<u>1.56</u>

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2005

3. DEPOSITS AND INVESTMENTS, Continued

Custodial Credit Risk

The policy requires that all investment securities purchased by the County be held by an independent third-party custodian and evidenced by safekeeping receipts in the County's name. As of June 30, 2005, all of the County's investments were held in a bank's trust department in the County's name.

4. RECEIVABLES

At June 30, 2005, receivables were as follows:

	General	Capital Project - Yorktown Capital Imps	Capital Project - County Capital	Nonmajor Governmental Funds	Sewer Utility	Yorktown Revitalization	Nonmajor Enterprise Funds	Internal Service
Receivables:								
Property taxes	\$ 4,693,678	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Vehicle registration fees	367,055	-	-	-	-	-	-	-
Accounts	1,607,588	-	-	1,137	1,009,574	1,150	493,905	4,028
Interest	76,561	-	28,895	7,460	24,494	-	1,546	4,335
Notes	125,164	1,501,934	-	-	-	-	-	-
Intergovernmental:								
Federal	68,705	-	-	233,740	-	-	-	-
State	1,003,086	-	-	219,508	-	-	-	-
Local	1,100,979	-	177,809	55,899	-	-	-	-
Receivables, gross	9,042,816	1,501,934	206,704	517,744	1,034,068	1,150	495,451	8,363
Less allowance for doubtful accounts	(1,828,436)	-	-	-	(50,260)	-	(20,737)	-
Receivables, net	\$ 7,214,380	\$ 1,501,934	\$ 206,704	\$ 517,744	\$ 983,808	\$ 1,150	\$ 474,714	\$ 8,363

During 2002, the County and the U.S. Army Corps of Engineers (the Corps) entered into an escrow agreement to establish an escrow account of \$110,000 to guarantee the completion and successful operation of a wetlands restoration project. The agreement states that the County has become obligated to the Corps for a wetlands mitigation as the result of the construction by the County of the Tabb Library (the Project) and consequently has the option of accomplishing such mitigation either through the payment to a mitigation bank with available credits in the Project's watershed or through the successful completion of a wetlands restoration project. The Corps has granted preliminary approval for a wetlands restoration project known as the Browns Park Stream Restoration and Wetlands Creation Plan (the Plan). Until the completion of the restoration project, the EDA deposited the funds with an escrow agent to guarantee the completion and successful operation of the Plan. The outstanding balance of the note receivable at June 30, 2005 was \$125,164.

The County agreed to loan the EDA up to \$1,000,000 in connection with the relocation and renovation of the Yorktown Freight Shed Building as part of a multi-million dollar renovation project to the Yorktown waterfront area. In order to realize significant savings for the relocation and renovation of the Yorktown Freight Shed Building, the County is utilizing historic building renovation tax credits, which are available through both federal and Virginia income tax codes. To utilize the tax credits, title to the Freight Shed building was conveyed by the Yorktown Trustees to Yorktown Freight Shed, L.P. (a Virginia limited partnership), created to hold title to the building and to oversee the project with money provided by the County through the EDA. Interest on the outstanding principal balance of the note is due at a rate of 5.5% per annum.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2005

4. RECEIVABLES, Continued

At June 30, 2005, the outstanding balance of the note receivable, including accrued interest of \$84,194 was \$1,084,194.

The County agreed to loan the EDA \$500,000 for restaurant equipment and related items. The EDA signed an agreement to lease equipment to a tenant who operates a restaurant at Riverwalk Landing. The lease agreement includes a repayment schedule based on a 20-year amortization schedule with a final balloon payment after ten years. Interest on the outstanding principal balance of the note is due at a rate of 4.14% per annum and the outstanding balance of the note receivable at June 30, 2005 was \$417,740.

5. INTERFUND AND COMPONENT UNIT TRANSACTIONS

The composition of interfund balances as of June 30, 2005 is as follows:

<u>Due from Fund</u>	<u>Due to Fund</u>	<u>Purpose</u>	<u>Amount</u>
General	Nonmajor governmental	Reimbursement	\$ 1,662
		Meals tax	26,228
	Nonmajor enterprise	Reimbursement	901
	Sewer utility	Meals tax	<u>104,911</u>
Total Due to other funds			<u>\$ 133,702</u>
Debt Service - Fire & Rescue	General	Debt proceeds	\$ 130,969
	County Capital	Debt proceeds	906,199
Nonmajor governmental	General	Cash needs	<u>175,144</u>
Total Due to other funds			<u>\$ 1,212,312</u>
Nonmajor enterprise	General	Cash needs	<u>\$ 648,967</u>

<u>Advance from Fund</u>	<u>Advance to Fund</u>	<u>Purpose</u>	<u>Amount</u>
General	Yorktown Capital Improvements	Infrastruture	\$ 7,589,608
	Yorktown Revitalization	Land purchase	<u>3,170,429</u>
Total Advances to other funds			<u>\$ 10,760,037</u>

Due to/from Primary Government:

<u>Due from Entity</u>	<u>Due to Entity</u>	<u>Purpose</u>	<u>Amount</u>
School Division	County of York	Reversion	\$ 181,614
		Solid Waste	<u>639</u>
Total Due to Primary Government			<u>\$ 182,253</u>
County of York	School Division	School support	<u>\$ 10,818,455</u>
County of York	EDA	Yorktown Operations	<u>\$ 1,469,831</u>

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2005

5. INTERFUND AND COMPONENT UNIT TRANSACTIONS, Continued

Interfund Transfers:

<u>Fund</u>	<u>Transfers Out Fund</u>	<u>Transfers In Fund</u>
General	\$ (16,187,264)	\$ -
Yorktown Capital Improvements	(2,425,000)	2,475,000
County Capital	-	3,275,000
Nonmajor governmental	(53,081)	9,327,669
Sewer Utility	(33,472)	1,701,810
Yorktown Revitalization	-	50,000
Nonmajor enterprise	(113,753)	1,700,010
Internal Service	-	283,081
Total	<u>\$ (18,812,570)</u>	<u>\$ 18,812,570</u>

All transfers made during the year were routine and consistent with the activities of the funds making the transfers.

Significant Transactions between Primary Government and Component Units:

<u>Purpose</u>	<u>Amount</u>
Payments from County to School Division:	
School operations	\$ 34,582,901
School technology and State electronic classroom	534,603
Hurricane Isabel	920
Payments to County from School Division:	
Year-end reversion entry	<u>(580,469)</u>
Total General Fund	<u>\$ 34,537,955</u>
Payments from County to School Division:	
County Capital Fund for school construction	<u>\$ 100,000</u>
Statement of Activities - Payment from County of York	<u>\$ 34,637,955</u>
Payment from County to Economic Development Authority:	
General Fund - Economic development	\$ 417,800
Yorktown Capital Improvements Fund - infrastructure	8,455,157
Yorktown Revitalization Fund - Yorktown operations	<u>50,600</u>
	<u>\$ 8,923,557</u>

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2005

6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

Primary Government:

Governmental Activities:	Balance			Balance
Capital assets not being depreciated:	July 1, 2004	Additions	Reductions	June 30, 2005
Land	\$ 8,600,680	\$ 490,644	\$ (10,607)	\$ 9,080,717
Construction in progress	12,487,050	860,512	(12,291,367)	1,056,195
Total capital assets not being depreciated	<u>21,087,730</u>	<u>1,351,156</u>	<u>(12,301,974)</u>	<u>10,136,912</u>
Capital assets being depreciated:				
Land improvements	3,006,259	3,812,032	(27,850)	6,790,441
Buildings and improvements	26,754,965	11,239,769	-	37,994,734
Infrastructure	2,990,338	7,525,782	-	10,516,120
Equipment	6,755,399	10,068,927	(271,952)	16,552,374
Vehicles	9,334,521	1,032,424	(143,295)	10,223,650
Total capital assets being depreciated	<u>48,841,482</u>	<u>33,678,934</u>	<u>(443,097)</u>	<u>82,077,319</u>
Less accumulated depreciation for:				
Land improvements	(1,669,959)	(259,108)	27,850	(1,901,217)
Buildings and improvements	(5,513,510)	(647,337)	-	(6,160,847)
Infrastructure	(696,409)	(237,392)	-	(933,801)
Equipment	(4,286,502)	(1,036,908)	251,173	(5,072,237)
Vehicles	(4,335,014)	(732,739)	91,902	(4,975,851)
Total accumulated depreciation	<u>(16,501,394)</u>	<u>(2,913,484)</u>	<u>370,925</u>	<u>(19,043,953)</u>
Total capital assets being depreciated, net	<u>32,340,088</u>	<u>30,765,450</u>	<u>(72,172)</u>	<u>63,033,366</u>
Governmental activities capital assets, net	<u>\$ 53,427,818</u>	<u>\$ 32,116,606</u>	<u>\$ (12,374,146)</u>	<u>\$ 73,170,278</u>

Depreciation expenses was charged to functions of the primary government for governmental activities as follows:

Governmental activities:

General government	\$ 655,548
Judicial services	216,441
Public safety	986,694
Environmental and development services	44,471
Finance and planning	175,660
Education	121,699
Human services	19,612
General services	85,375
Community services	116,159
Internal Service Fund - charged to functions based on usage	<u>491,825</u>
Total depreciation expense - governmental activities	<u>\$ 2,913,484</u>

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2005

6. CAPITAL ASSETS, Continued

Business-type Activities:	Balance			Balance
Capital assets not being depreciated:	July 1, 2004	Additions	Reductions	June 30, 2005
Land	\$ 3,970,814	\$ -	\$ (221,214)	\$ 3,749,600
Construction in progress	<u>6,949,059</u>	<u>3,573,832</u>	<u>(2,186,176)</u>	<u>8,336,715</u>
Total capital assets not being depreciated	<u>10,919,873</u>	<u>3,573,832</u>	<u>(2,407,390)</u>	<u>12,086,315</u>
Capital assets being depreciated:				
Land improvements	8,295	-	-	8,295
Buildings and improvements	11,838,046	1,077,935	-	12,915,981
Infrastructure	84,004,231	4,192,377	-	88,196,608
Equipment	2,330,685	140,945	(90,019)	2,381,611
Vehicles	<u>874,336</u>	<u>90,019</u>	<u>-</u>	<u>964,355</u>
Total capital assets being depreciated	<u>99,055,593</u>	<u>5,501,276</u>	<u>(90,019)</u>	<u>104,466,850</u>
Less accumulated depreciation for:				
Land improvements	(622)	(415)	-	(1,037)
Buildings and improvements	(5,875,560)	(547,235)	-	(6,422,795)
Infrastructure	(17,507,204)	(1,734,393)	-	(19,241,597)
Equipment	(1,850,118)	(128,163)	-	(1,978,281)
Vehicles	<u>(475,380)</u>	<u>(62,324)</u>	<u>-</u>	<u>(537,704)</u>
Total accumulated depreciation	<u>(25,708,884)</u>	<u>(2,472,530)</u>	<u>-</u>	<u>(28,181,414)</u>
Total capital assets being depreciated, net	<u>73,346,709</u>	<u>3,028,746</u>	<u>(90,019)</u>	<u>76,285,436</u>
Business-type activities capital assets, net	<u>\$ 84,266,582</u>	<u>\$ 6,602,578</u>	<u>\$ (2,497,409)</u>	<u>\$ 88,371,751</u>

Depreciation expense was charged to functions of the primary government for business-type activities as follows:

Business-type activities:	
Sanitary District No. 2	\$ 477,406
Solid waste	155,178
Sewer utility	1,686,152
York Sanitary District	84,741
Water enterprise	16,251
Water utility	<u>52,802</u>
Total depreciation expense - business-type activities	<u>\$ 2,472,530</u>

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2005

6. CAPITAL ASSETS, Continued

Discretely Presented Component Units:

School Division:

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005
Capital assets not being depreciated:				
Land	\$ 4,669,160	\$ -	\$ -	\$ 4,669,160
Construction in progress	4,091,101	1,080,428	(4,091,101)	1,080,428
Total capital assets not being depreciated	<u>8,760,261</u>	<u>1,080,428</u>	<u>(4,091,101)</u>	<u>5,749,588</u>
Capital assets being depreciated:				
Improvements other than buildings	2,415,673	-	-	2,415,673
Buildings and improvements	126,767,211	4,744,661	-	131,511,872
Equipment	1,518,933	183,554	(143,919)	1,558,568
Vehicles	7,078,933	1,065,971	(373,773)	7,771,131
Total capital assets being depreciated	<u>137,780,750</u>	<u>5,994,186</u>	<u>(517,692)</u>	<u>143,257,244</u>
Less accumulated depreciation for:				
Improvements other than buildings	(1,115,203)	(64,473)	-	(1,179,676)
Buildings and improvements	(33,174,557)	(2,678,836)	-	(35,853,393)
Equipment	(482,834)	(122,860)	80,263	(525,431)
Vehicles	(3,141,517)	(513,770)	344,617	(3,310,670)
Total accumulated depreciation	<u>(37,914,111)</u>	<u>(3,379,939)</u>	<u>424,880</u>	<u>(40,869,170)</u>
Total capital assets being depreciated, net	<u>99,866,639</u>	<u>2,614,247</u>	<u>(92,812)</u>	<u>102,388,074</u>
School Division capital assets, net	<u>\$ 108,626,900</u>	<u>\$ 3,694,675</u>	<u>\$ (4,183,913)</u>	<u>\$ 108,137,662</u>

Economic Development Authority:

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005
Capital assets not being depreciated:				
Land	\$ 165,908	\$ -	\$ -	\$ 165,908
Total capital assets not being depreciated	<u>165,908</u>	<u>-</u>	<u>-</u>	<u>165,908</u>
Capital assets being depreciated:				
Equipment	-	417,740	-	417,740
Building	2,717,048	-	-	2,717,048
Total capital assets being depreciated	<u>2,717,048</u>	<u>417,740</u>	<u>-</u>	<u>3,134,788</u>
Less accumulated depreciation	(339,631)	-	(67,926)	(407,557)
Total capital assets being depreciated, net	<u>2,377,417</u>	<u>417,740</u>	<u>(67,926)</u>	<u>2,727,231</u>
Economic Development Authority capital assets, net	<u>\$ 2,543,325</u>	<u>\$ 417,740</u>	<u>\$ (67,926)</u>	<u>\$ 2,893,139</u>

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2005

6. CAPITAL ASSETS, Continued

Construction Commitments:

<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Marlbank sewer	\$ 296,980	\$ 2,165,896
Skimino Hills sewer	1,096,330	1,246,544
Harwoods Mill athletic complex	21,789	791,211
Skimino Hills pump station	455,700	749,815
York Point sewer	46,201	481,405
Queens Lake sewer	102,409	397,616
Route 143 & 162 sidewalk improvements	-	392,570
Skimino Hills lift station	356,450	366,470
Fire and Life Safety equipment	-	310,688
CAD communication system	431,241	287,494
Yorktown utility undergrounding	19,869	285,705
Smith Landing	290,599	262,909
Sewer inspection vehicle and equipment	-	206,900
HRMMRS radio equipment	-	198,250
Foxwood stormwater project	234,336	194,220
Sheriff equipment	-	166,166
Moore's Creek stormwater project	-	140,466
Yorktown shoreline project	5,833,231	137,399
Edgehill stormwater project	-	119,508
	<u>\$ 9,185,135</u>	<u>\$ 8,901,232</u>

7. DEFERRED REVENUE

Deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available.

At June 30, 2005, deferred revenue totaled \$4,359,117. Of this amount, \$2,501,401 represents uncollected tax billings not available for funding of current expenditures; \$375,753 represents the receipt of payments of a tax assessment due on December 5, 2005, but not yet billed; \$125,164 represents a note receivable for a wetlands mitigation plan; \$61,791 represents the advance payment from the City of Poquoson for shared court services; \$60,993 represents the deferred \$2.00 transient occupancy tax; \$35,000 represents the advance payment for rescue tools; \$19,126 represents tower rentals paid in advance; \$17,705 represents advance payments for stormwater maintenance and dredging; \$810 represents an advance payment for Riverwalk Port Security; \$296 represents office space rentals paid in advance; \$290 represents a lease payment paid in advance; \$1,084,194 represents a note receivable from the EDA; \$74,760 represents the advance payment of shared expenses for a sewer construction project; and \$1,834 represents advance rental payments at Riverwalk Landing.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2005

8. LONG-TERM DEBT

The following is a summary of changes in long-term debt during the year ended June 30, 2005:

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2005</u>	<u>Due Within</u> <u>One Year</u>
<u>Governmental Activities:</u>					
General obligation bonds	\$ 44,785,000	\$ -	\$ (3,130,000)	\$ 41,655,000	\$ 3,105,000
Literary loans	1,030,000	-	(160,000)	870,000	160,000
Capital leases	175,471	-	(106,282)	69,189	58,214
Lease revenue bonds	19,795,000	-	(1,015,000)	18,780,000	1,040,000
Note payable	2,747,783	-	(193,986)	2,553,797	208,586
Compensated absences	3,079,865	2,001,413	(1,824,761)	3,256,517	111,100
Total Governmental Activities	<u>\$ 71,613,119</u>	<u>\$ 2,001,413</u>	<u>\$ (6,430,029)</u>	<u>\$ 67,184,503</u>	<u>\$ 4,682,900</u>
<u>Business-type Activities:</u>					
Revenue bonds	\$ 9,310,721	\$ 8,575,000	\$ (7,998,999)	\$ 9,886,722	\$ 274,455
Less deferred amount on refunding	-	(823,870)	-	(823,870)	-
Capital leases	1,350,000	-	(145,000)	1,205,000	150,000
Closure costs	188,316	-	(40,185)	148,131	60,000
Compensated absences	249,329	210,746	(204,234)	255,841	3,200
Total Business-type Activities	<u>\$ 11,098,366</u>	<u>\$ 7,961,876</u>	<u>\$ (8,388,418)</u>	<u>\$ 10,671,824</u>	<u>\$ 487,655</u>
<u>Discretely Presented Component Units:</u>					
<u>School Division</u>					
Capital leases	\$ 315,250	\$ -	\$ (97,000)	\$ 218,250	\$ 97,000
Compensated absences	1,550,199	1,017,626	(750,775)	1,817,050	1,817,050
Workers' compensation claims	1,979,810	441,481	(290,193)	2,131,098	600,000
Total School Division	<u>\$ 3,845,259</u>	<u>\$ 1,459,107</u>	<u>\$ (1,137,968)</u>	<u>\$ 4,166,398</u>	<u>\$ 2,514,050</u>
<u>Economic Development Authority</u>					
Notes payable	\$ 3,028,616	\$ 821,077	\$ (82,133)	\$ 3,767,560	\$ 85,877
Total Economic Development Authority	<u>\$ 3,028,616</u>	<u>\$ 821,077</u>	<u>\$ (82,133)</u>	<u>\$ 3,767,560</u>	<u>\$ 85,877</u>

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2005

8. LONG-TERM DEBT, Continued

A. General Obligation Bonds

General obligations bonds (GOB) are backed by the full faith and credit of the County. There are no sinking fund requirements. Outstanding general obligation bonds at June 30, 2005 of the primary government governmental activities are as follows:

GOB Series	Purpose	Bond Date	Maturity Date	Interest Rate	Balance June 30, 2005
Series 93	Renovate, construct fire stations, apparatus	10/01/93	07/01/07	2.15-4.70%	\$ 435,000
VPSA 94A	Coventry, Magruder, Grafton Bethel schools	12/15/93	12/15/09	7.17-7.44%	1,670,000
VPSA 93C	School complex, Tabb, Yorktown Elementary	11/18/93	12/15/13	4.48-5.00%	1,050,000
VPSA 94	Grafton High/Middle complex	07/01/94	07/15/05	5.60%	1,195,000
VPSA 97I	Various school projects	11/20/97	07/15/17	4.35-5.35%	11,450,000
Series 01	Refinance 1994 issue for school construction	11/01/01	07/15/14	3.00-5.00%	14,885,000
VPSA 02B	Bruton High	11/07/02	07/15/22	2.35-5.10.%	7,210,000
VPSA 03	Queens Lake	11/06/03	07/15/23	3.10-5.35%	3,760,000
					\$ 41,655,000

The following is a summary of the repayment schedules for fiscal years:

Year	Governmental Activities	
	Principal	Interest
2006	\$ 3,105,000	\$ 2,046,363
2007	3,115,000	1,880,775
2008	3,215,000	1,715,222
2009	3,075,000	1,550,520
2010	3,040,000	1,392,906
2011 - 2015	16,535,000	4,590,897
2016 - 2020	6,780,000	1,402,685
2021 - 2024	2,790,000	241,032
	\$ 41,655,000	\$ 14,820,400

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2005

8. LONG-TERM DEBT, Continued

B. Literary Loans

Literary fund loans consist of loans from the State Literary Loan Fund for the construction and improvement of various schools. Outstanding literary loans at June 30, 2005 of the primary government governmental activities are as follows:

<u>Project/Purpose</u>	<u>Loan Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Balance June 30, 2005</u>
New Horizon	09/01/86	09/01/06	4.00%	\$ 20,000
Mount Vernon	04/01/88	04/01/08	3.00%	150,000
Magruder Elementary	07/15/91	07/15/11	4.00%	700,000
				<u>\$ 870,000</u>

The following is a summary of the repayment schedules for fiscal years:

<u>Year</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 160,000	\$ 33,300
2007	160,000	27,400
2008	150,000	21,500
2009	100,000	16,000
2010	100,000	12,000
2011 - 2014	200,000	12,000
	<u>\$ 870,000</u>	<u>\$ 122,200</u>

C. Compensated Absences

For governmental activities, compensated absences are typically liquidated by the general fund.

D. Lease Revenue Bonds

Principal payments will be made in annual installments and interest payments will be made in semi-annual installments. Outstanding lease revenue bonds at June 30, 2005 of the primary government governmental activities are as follows:

<u>Series</u>	<u>Purpose</u>	<u>Bond Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Balance June 30, 2005</u>
2001	Refinance COPS Series 1990 and 1992	11/01/01	03/01/12	3.00-4.13%	\$ 2,415,000
2003	800 mhz system, equipment, parking garage	12/01/03	06/15/23	2.00-4.50%	16,365,000
					<u>\$ 18,780,000</u>

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2005

8. LONG-TERM DEBT, Continued

The following is a summary of the repayment schedules for fiscal years:

<u>Year</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 1,040,000	\$ 693,154
2007	1,060,000	667,979
2008	1,085,000	641,454
2009	1,110,000	610,849
2010	1,150,000	576,387
2011 - 2015	4,745,000	2,329,364
2016 - 2020	5,030,000	1,445,077
2021 - 2023	3,560,000	325,125
	<u>\$ 18,780,000</u>	<u>\$ 7,289,389</u>

E. Note Payable

Note payable is a taxable-refunding note used to refinance the Virginia Retirement System (VRS) obligation incurred by the School Division in a one-time early retirement incentive program offered by VRS during the fiscal year 1992. Payments will be made in semi-annual installments plus interest calculated at 7.39% per annum. The following is a summary of the repayment schedules for fiscal years:

<u>Year</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 208,586	\$ 184,942
2007	224,286	169,243
2008	241,167	152,362
2009	259,318	134,210
2010	278,836	114,693
2011 - 2014	1,341,604	232,504
	<u>\$ 2,553,797</u>	<u>\$ 987,954</u>

F. Revenue Bonds

The County anticipates that the amounts required for the payment of interest and principal on the bonds will be provided by the respective enterprise funds revenues. During fiscal year 2005, the County issued \$8,575,000 of sewer system revenue refunding bonds to advance refund \$7,815,000 of sewer revenue bonds. The refunding was undertaken to reduce future debt service payments by \$1,004,194. The reacquisition price exceeded the net carrying amount of the old debt by \$823,870. This amount is being netted against the new debt and amortized over the new debt's life, which is the same as the refunded debt. The transaction also resulted in an economic gain of \$639,060.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2005

8. LONG-TERM DEBT, Continued

Revenue bonds at June 30, 2005 of the primary government business-type activities are as follows:

<u>Bond Series</u>	<u>Purpose</u>	<u>Bond Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Balance June 30, 2005</u>
Series 92	Lackey sewer system	05/14/92	05/14/32	5.00%	\$ 521,722
Series 99	Sewer systems	12/01/99	07/01/29	4.75-5.88%	790,000
Series 05	Sewer systems Refunding	06/08/05	06/01/29	3.00-5.00%	8,575,000
					<u>\$ 9,886,722</u>

The following is a summary of the repayment schedules for fiscal years:

<u>Year</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 274,455	\$ 393,714
2007	264,933	400,895
2008	275,436	388,842
2009	285,965	376,363
2010	301,520	363,358
2011 - 2015	1,651,958	1,663,026
2016 - 2020	1,990,714	1,345,215
2021 - 2025	2,399,717	917,174
2026 - 2030	2,375,449	322,671
2031 - 2032	66,575	4,209
	<u>\$ 9,886,722</u>	<u>\$ 6,175,467</u>

G. Virginia Peninsula Regional Jail Authority Liabilities

In June 2003, the Virginia Peninsula Regional Jail Authority (Jail Authority), of which the County is a member jurisdiction as discussed in Note 1, issued \$21,655,000 of Regional Jail Facility Refunding Revenue Bonds, Series 2003. The original bonds were issued for the purpose of acquiring, constructing and equipping a Regional Jail Facility to serve its member jurisdictions. The bonds bear interest at 2% to 5%, which will be paid semi-annually. The bonds mature in amounts ranging from \$570,000 on October 1, 2003 to \$2,765,000 on October 1, 2018. The outstanding balance at June 30, 2005 was \$20,005,000.

The bonds are limited obligations of the Jail Authority, and do not constitute a general obligation debt or pledge of the faith and credit of any member jurisdiction, nor do they obligate any member jurisdiction to levy or pledge any form of taxation therefore. However, the County has entered into a non-binding moral obligation pledge of the member jurisdictions in which the member jurisdictions have agreed to pay their proportionate share of the debt service on the bonds and any debt service funding requirements if the Jail Authority lacks sufficient funds to do so. The County's proportionate share is 34%.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2005

8. LONG-TERM DEBT, Continued

H. Economic Development Authority Liabilities

In 1999, the EDA received a loan commitment of \$2,820,000 from Bank of America (formerly NationsBank) for a loan to pay off the outstanding balance of \$1,800,000 on the 1996 shell building loan and to finance the costs of certain construction and build-out improvements under the terms of a lease agreement for the shell building. In April 1999, the EDA began making monthly payments of interest only at 6.15%. Monthly principal and interest payments began August 1, 1999. The loan is backed by the moral obligation of the County of York, and secured by a credit line deed of trust on the property. In fiscal year 2004, a modification agreement was signed reducing the interest rate to 4.71% and monthly payments to \$16,374. The outstanding balance at June 30, 2005 was \$2,349,820. The following is a summary of the repayment schedule.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 85,877	\$ 110,617
2007	90,068	106,426
2008	94,185	102,309
2009	97,062	99,432
2010	103,898	92,596
2011 - 2014	1,878,730	240,307
	<u>\$ 2,349,820</u>	<u>\$ 751,687</u>

On December 19, 2001, the County agreed to loan the EDA up to \$1,000,000 in connection with the relocation and renovation of the Yorktown Freight Shed Building as part of a multi-million dollar renovation project to the Yorktown waterfront area. In order to realize significant savings on the cost of the relocation and renovation of the Yorktown Freight Shed Building, the County is utilizing historic building renovation tax credits, which are available through both federal and Virginia income tax codes. In order to be able to utilize the tax credits, title to the Freight Shed building was conveyed by the Yorktown Trustees to Yorktown Freight Shed, L.P. (a Virginia limited partnership), which has been created to hold title to the building and to oversee the project with money provided by the County through the EDA.

Interest on the outstanding principal balance of the note is due at a rate of 5.5% per annum. At June 30, 2005, the outstanding balance of the note payable, including accrued interest of \$84,194 was \$1,084,194.

The County agreed to loan the EDA \$500,000 for restaurant equipment and related items. The EDA signed an agreement to lease equipment to a tenant who operates a restaurant at Riverwalk Landing. The lease agreement includes a repayment schedule based on a 20-year amortization schedule with a final balloon payment after ten years. Interest on the outstanding principal balance of the note is due at a rate of 4.14% per annum and the outstanding balance of the note receivable at June 30, 2005 was \$417,740.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2005

9. LEASES

The County leases certain equipment and various office spaces under noncancellable operating lease agreements. A summary of future minimum rental payments under these noncancellable operating leases as of June 30, 2005 is as follows:

<u>Year</u>	<u>Primary Government</u>	<u>Discretely Presented Component Unit - School Division</u>
2006	\$ 102,707	\$ 294,164
2007	47,732	76,769
2008	39,984	-
2009	38,138	-
2010	29,982	-
2011 - 2015	29,851	-
2016 - 2020	30,747	-
2021 - 2025	31,669	-
2026 - 2030	32,619	-
Total minimum lease payments	<u>\$ 383,429</u>	<u>\$ 370,933</u>

Rental expenditures for the year ended June 30, 2005 for all operating leases were \$160,701 and \$501,168 for the County and Discretely Presented Component Unit - School Division, respectively.

The County leases the usage of its communication towers under operating lease agreements. The towers are included in capital assets as communications equipment with a cost of \$9,222,602 and accumulated depreciation of \$461,131, for a carrying amount of \$8,761,471 at June 30, 2005.

A summary of the future minimum rental receipts under noncancellable operating leases as of June 30, 2005 is as follows:

<u>Year</u>	<u>Primary Government</u>	<u>Discretely Presented Component Unit - School Division</u>
2006	\$ 321,674	\$ 133,288
2007	332,799	100,288
2008	332,979	78,288
2009	285,829	-
2010	254,059	-
2011 - 2015	951,905	-
2016 - 2020	776,966	-
2021 - 2025	418,722	-
2026 - 2030	50	-
2031 - 2035	40	-
Total minimum lease payments	<u>\$ 3,675,023</u>	<u>\$ 311,864</u>

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2005

9. LEASES, Continued

Rental revenue receipts for all operating leases were \$397,006 for the County and \$118,106 for the School Division for the year ended June 30, 2005.

The County leases certain equipment and a building under capital lease agreements. A summary of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 2005 is as follows:

<u>Year</u>	<u>Primary Government</u>		<u>Discretely Presented</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Unit - School Division</u>
2006	\$ 61,062	\$ 199,025	\$ 103,952
2007	11,438	203,025	100,072
2008	-	201,625	24,412
2009	-	199,200	-
2010	-	202,400	-
2011 - 2015	-	403,000	-
Total minimum lease payments	72,500	1,408,275	228,436
Less amount representing interest	(3,311)	(203,275)	(10,186)
Present value of principal	\$ 69,189	\$ 1,205,000	\$ 218,250

The gross value of capital assets under capital lease agreements is as follows: Governmental Activities - \$606,360 (equipment) and Business-type Activities - \$1,183,701 (buildings).

10. DEFINED BENEFIT PENSION PLANS

A. Plan Descriptions

The County has three defined benefit pension plans. In the first plan (the "County" plan), the County contributes to the Virginia Retirement System (VRS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for political subdivisions in the Commonwealth of Virginia. The County payroll for employees covered by the VRS for the year ended June 30, 2005 was \$27,637,005 out of the total payroll of \$30,928,869.

In the second plan (the "School Division" plan), professional employees of the School Division are covered by the VRS. Professional employees participate in a VRS statewide teacher cost sharing pool. The payroll for professional employees covered by VRS for the year ended June 30, 2005 was \$51,370,079; the total payroll was \$52,528,199. As of June 30, 1992, non-professional employees of the School Division are also covered by the VRS. Non-professional employees participate as a separate group in the agent multiple-employer retirement system. The payroll for non-professional employees covered by VRS for the year ended June 30, 2005 was \$5,714,429 out of the total payroll of \$6,687,810.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2005

10. DEFINED BENEFIT PENSION PLANS, Continued

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 with 5 years of service for participating law enforcement officers and firefighters) and at age 50 with 30 years of service for participating employers (age 50 with 25 years for participating law enforcement officers and firefighters) payable monthly for life in an amount equal to 1.7% of their average final compensation (AFC) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for an annual cost-of-living adjustment (COLA) beginning in their second year of retirement. The COLA is limited to 5% per year. AFC is defined as the highest consecutive 36 months of reported compensation. Participating law enforcement officers and firefighters may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded from their website at <http://www.varetire.org/Pdf/2004AnnuRept.pdf> or obtained by writing to the System at P.O. Box 2500, Richmond, Virginia 23218-2500.

In the third plan (the "optional" plan), non-professional employees of the School Division who were not previously covered by VRS are provided pension benefits through a single employer defined benefit pension plan administered by a fiduciary agent of the School Division. The optional plan provides retirement benefits as well as death and disability benefits. As of June 30, 1992, the optional plan was frozen and the non-professional employees who participated in the plan became fully vested. The non-professional employees now participate in the VRS.

B. Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the VRS. This 5% member contribution has been assumed by the County and by the School Division. In addition, the County and the School Division are required to contribute the remaining amounts necessary to fund their participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Division of Trustees. The County's contribution rate for fiscal years ended 2005, 2004 and 2003, was 11.14%, 6.13%, and 6.13%, respectively, of annual covered payroll.

The School Division's contribution rate for non-professional employees for fiscal years ended 2005, 2004, and 2003 was 11.5%, 10%, and 10%, respectively, of annual covered payroll. The School Division's required contribution for the professional employees for fiscal years ended 2005, 2004, and 2003, was \$5,664,731, \$4,439,787, and \$3,969,426, respectively, and was fully funded for each fiscal year.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2005

10. DEFINED BENEFIT PENSION PLANS, Continued

C. Annual Pension Cost

The County's annual pension costs of \$3,078,762, \$1,578,030, and \$1,409,994, for 2005, 2004 and 2003 respectively, were equal to the required and actual contributions. The School Division's annual pension costs for the non-professional employees of \$658,200, \$614,300 and \$599,222 for 2005, 2004 and 2003 respectively, were equal to the required and actual contributions. The School Division's annual pension costs for the professional employees of \$5,664,731, \$4,439,787 and \$3,969,426 for 2005, 2004, and 2003, respectively, were equal to the required and actual contributions. The School Division's annual required contributions for the optional plan were \$96,878, \$87,912 and \$82,264, and actual contributions were \$200,000, \$100,000 and \$300,000 for 2005, 2004 and 2003 respectively.

The required contribution for VRS was determined as part of the June 30, 2004 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, (b) projected salary increases ranging from 4.25% - 6.10% per year, and (c) 3% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3%. The actuarial value of the County's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a 5-year period. The County's funding excess is being amortized as a level percentage of payroll on an open basis within a period of thirty years or less.

The actuarial accrued liability for the optional plan was determined as part of an actuarial valuation on June 30, 2005 using the projected unit credit actuarial cost method. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 7% per year compounded annually, (b) post-retirement benefit increases of 2% per year, and (c) percentage of current retiree benefits to be paid of 100%.

11. COMMITMENTS AND CONTINGENT LIABILITIES

A. Post-Closure Landfill Costs

State and federal laws and regulations require that the County perform post-closure care requirements on its landfill. The landfill was closed on October 9, 1993. Post-closure costs at June 30, 2005 of \$148,131 are expected to be incurred over the next three years. An annual evaluation is performed to determine future costs and actual costs may differ due to inflation, deflation, changes in technology or changes in regulations. Funding of these costs will be from current operating revenues.

Post-closure costs are included in liabilities of the Solid Waste Fund as follows:

Construction of methane gas collection system	\$ 2,940
Landfill monitoring and maintenance	<u>145,191</u>
	148,131
Less current portion	<u>(60,000)</u>
	<u>\$ 88,131</u>

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2005

11. COMMITMENTS AND CONTINGENT LIABILITIES, Continued

B. Risk Management

The County and the School Division are exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County reports all of its risk management activities in its General Fund and pays all claims for retained risks from General Fund resources. The School Division reports all of its risk management activities in its Operating Fund and pays all claims for retained risks from Operating Fund resources. The County and the School Division maintain comprehensive property and casualty policies, commercial general liability policies, comprehensive liability vehicle fleet policies and coverages for errors and omissions, and employer's liability and certain other risks with commercial insurance companies. The General and School Operating Funds retain the full risk for unemployment compensation; up to \$100,000 for each health care claim; and up to \$200,000 for each workers' compensation occurrence subject to a \$600,000 annual aggregate on the combined claims. All unemployment, health care claims and workers' compensation claims are paid through a third-party administrator through resources from the General and School Operating Funds. For all retained risks, claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. There have been no reductions in insurance coverages from the prior year, and settled claims have not exceeded the amount of insurance coverage in any of the past six fiscal years.

The County health care liability at June 30 is included in salaries, taxes and benefits payable in the applicable County funds. The County had available \$1,100,978 for health care claims and \$1,651,147 for workers' compensation claims at June 30, 2005, which is considered sufficient to cover pending claims and incurred but not reported claims that may arise.

Changes in the reported amounts since June 30, 2003 resulted from the following:

	<u>2005</u>	<u>2004</u>
Accrued liability/designated fund balance - beginning of year	\$ 2,396,901	\$ 2,014,108
Claims and changes in estimates	4,767,021	4,586,073
Claims payment	<u>(4,411,797)</u>	<u>(4,203,280)</u>
Accrued liability/designated fund balance - end of year	<u>\$ 2,752,125</u>	<u>\$ 2,396,901</u>

The School Division health care claim liability at June 30 is included in salaries, taxes, and benefits payable balance of its Operating Fund. The School Division had available \$1,898,917 for health care claims and \$2,131,098 for workers' compensation claims at June 30, 2005, which is considered sufficient to cover pending claims and incurred but not reported claims that may arise.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2005

11. COMMITMENTS AND CONTINGENT LIABILITIES, Continued

Changes in the reported amounts since June 30, 2003 resulted from the following:

	2005	2004
Accrued liability/designated fund balance - beginning of year	\$ 3,971,243	\$ 3,290,543
Claims and changes in estimates	6,941,451	6,260,991
Claims payment	(6,882,679)	(5,580,291)
Accrued liability/designated fund balance - end of year	\$ 4,030,015	\$ 3,971,243

12. SURETY BONDS

The County of York maintains the following surety bonds at June 30, 2005:

	Amount
<u>Fidelity and Deposit Company of Maryland - Surety:</u>	
Treasurer and/or Director of Financial and Management Services	\$ 750,000
Clerk of the Circuit Court	1,275,000
Sheriff	30,000
Commissioner of the Revenue	3,000
 <u>Virginia Municipal Liability Pool - Surety:</u>	
All County employees	\$ 1,000,000

In addition, the Discretely Presented Component Unit - School Division maintains the following surety bond at June 30, 2005:

<u>Virginia Municipal Liability Pool - Surety:</u>	
All School Division employees	\$ 1,000,000

13. POST- RETIREMENT BENEFITS

Employees retiring after January 1, 2002 and having twenty or more years of service with the County and receiving a VRS annuity will qualify for a health insurance premium contribution from the County. The twenty years need not be consecutive. The retiree's Virginia Retirement System (VRS) annuity may be either a full or reduced benefit. The amount of the County's contribution shall be equal to 50% of the retiree's total monthly health insurance premium subject to the following provisions. The County's 50% contribution will be reduced by the amount of any health insurance credit that the retiree may qualify for under the VRS program. Retiring employees who have fifteen years of service with the VRS will qualify for the VRS Retiree Health Insurance Credit Program. At June 30, 2005, 11 retirees were participating in this program. Expenditures for post-retirement health care benefits are recognized as incurred. During the year, expenditures of \$28,904 were recognized as incurred for post-retirement health care.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2005

13. POST- RETIREMENT BENEFITS, Continued

The School Division provides post-retirement health care benefits, in accordance with School Division policy, to all employees who retire from York County Public Schools with 100 days of accumulated sick leave, 10 years of service and a minimum of 24 months participation in the health insurance program immediately prior to retirement. At June 30, 2005, 50 retirees were participating in this program. The School Division pays a monthly contribution of \$25 toward the health care program premium for a total period of time not to exceed 10 years or until retiree is eligible for Medicare. Expenditures for post-retirement health care benefits are recognized as incurred. During the year, expenditures of \$76,416 were recognized as incurred for post-retirement health care.

14. DEFERRED COMPENSATION PLAN

The County, including its component unit - EDA, offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all County employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are held in trust for the participants. Investments are managed by the plan's trustee under one or a combination of 34 investment options. The participants make the choice of the investment options.

The County also offers its employees a retirement health savings plan, which is available to all full-time, regular County employees who have worked in that capacity for at least one full year. Participation in the plan is optional. Employees may be reimbursed for qualified medical expenses, in accordance with Internal Revenue Service Publication 502, for themselves, spouse, and dependents upon separation or retirement from the County. Investments are managed by the plan's trustee under one or a combination of 9 investment options.

The School Division offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 403(b). The plan, available to all School employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until separation from service, retirement, death, disability, financial hardship and/or reaching age 59½. The School Division offers a selection of investment options to participants. All earnings on the invested funds compound tax-free until withdrawn from the account.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2005

15. RESTATEMENT OF BEGINNING NET ASSETS - COMPONENT UNIT, SCHOOL DIVISION

The beginning net assets in the government-wide Statement of Activities of the component unit, School Division, have been restated to account for surplus cash reserves held in trust for health care claims and associated charges in incurred but not report claims at June 30, 2004 as follows:

	Component Unit - School Division
Net assets, June 30, 2004 - as previously reported	\$ 109,590,477
Increase in prepaid expenses	1,991,433
Decrease in salaries, taxes and benefits payable	<u>1,287,811</u>
Net assets, June 30, 2004 - as restated	<u>\$ 112,869,721</u>